

**APPENDIX A2.2**

**ILLUSTRATIVE PROGRAM SPECIFIC EXAMINATION**

**COMMODITY DISTRIBUTION PROGRAM**

**SPONSOR OF ADULT CORRECTIONAL REHABILITATION INSTITUTIONS**

**XYZ FOUNDATION, INC.**

**FISCAL YEAR ENDED JUNE 30, 19X9**

**Program-Specific Examination**

**XYZ Foundation, Inc.**

**Fiscal Year Ended June 30, 19X9**

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**XYZ Foundation, Inc.**

**GENERAL INFORMATION**

June 30, 19X9

1. Full official name of the agency . . . . . XYZ Foundation, Inc.
2. Program name and contract number:  
  
California Department of Education, Food Distribution Divison, U.S.D.A  
Donated Food Commodities Program, Agreement No. . . . . Axxx-xx
3. Type and Description of agency . . . . . Tax-exempt, Nonprofit  
Corporation providing residential, educational, rehabilitational, and nutritional services to adult  
offenders, ex-offenders, and substance abusers, develops affordable housing, promotes  
economic developemnt and provides vocational training for people in need. No tuition is  
charged and no salaries are paid to any member of XYZ Foundation, Inc.
4. Address of agency headquarters . . . . . 1000 N. Main Street  
Smalltown, CA 9xxxx
5. Names and address of Executive Director  
and name of Chief Executive Officer, Business  
Officer, or Accountant  
  
Executive Director . . . . . Gina Anonymous  
2000 S. Child Drive  
Smalltown, CA 9xxxx  
  
Business Officer . . . . . Joe McNice
6. Telephone number . . . . . (916) 555-1212
7. Period covered by examination . . . . . July 1, 19X8 through June 30, 19X9
8. Number of days of agency operation . . . . . 365 days
9. Scheduled hours of operation each day . . . . . 24 hours a day

Accountant's Letterhead

**Independent Accountant's Report**

Board of Directors  
XYZ Foundation, Inc.

We have examined **XYZ Foundation, Inc.'s** (Foundation) Food Distribution Program (FDP) (Sponsor Agreement No. Axxx-xx ) Statement of FDP Inventory, as of June 30, 19X9, and for the period from July 1, 19X8 through June 30, 19X9.

Our examination was made in accordance with the *Statement of Standards of Attestation Engagements* established by the American Institute of Certified Public Accountants and with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and included tests of the program and accounting records prescribed by the Office of the Inspector General of the United States Department of Agriculture (OIG-USDA), as set forth in its *Audit Guide for Audits of Child and Adult Care Food Program Institutions*, No. 27029-2, dated February 18, 1999, and the California Department of Education's (CDE) Child Nutrition and Food Distribution Division's (CNFDD) *Commodity Administrative Manual*, for examinations of this program.

In our opinion, the Statement of FDP Inventory referred to above presents fairly, in all material respects, the amount of inventory of U.S.D.A Donated Food Commodities of the Foundation as of June 30, 19X9 and the changes in its inventory for the period from July 1, 19X8 to June 30, 19X9 under the U.S.D.A Donated Food Commodities Program in conformity with the terms of applicable agreements and those provisions of federal law and regulations governing the FDP and generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September XX, 19X9, on our consideration of the Foundation's internal control over financial reporting and our tests of FDP compliance with certain provisions of laws, regulations, contracts and grants.

Bean, Bean & Counter  
Certified Public Accountants

September XX, 19X9

XYZ Foundation, Inc.

**Statement of FDP Inventory**

as of and for the year ended June 30, 19X9

Agreement No.: AXXX-XX

Meals Served Daily \_\_\_\_\_:

<u>Item</u> <u>No. :</u>	<u>Commodity and Pack :</u>	<u>Beginning Inventory</u>		<u>* Received:</u>	<u>Issued :</u>	<u>Ending Inventory</u>		<u>Difference :</u>	<u>Variance :</u>
		<u>Perpetual:</u>	<u>Physical:</u>			<u>Perpetual:</u>	<u>Physical:</u>		
		\$	\$	\$	\$	\$	\$	\$	\$
</									

Accountant's Letterhead

**Independent Accountant's Report on Supplementary Information -  
Schedule of Federal Commodities Contributions and Expenditures**

Board of Directors  
XYZ Foundation, Inc.

We have examined the Statement of FDP Inventory (Financial Statement) of **XYZ Foundation, Inc.** (Foundation), for the year ended June 30, 19X9, and have issued our report dated September XX, 19X9.

We conducted our examination in accordance with the *Statement of Standards of Attestation Engagements* established by the American Institute of Certified Public Accountants and with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and included tests of the program and accounting records prescribed by the Office of the Inspector General of the United States Department of Agriculture (OIG-USDA), as set forth in its *Audit Guide for Audits of Child and Adult Care Food Program Institutions*, No. 27029-2, dated February 18, 1999 and the California Department of Education's (CDE) Child Nutrition and Food Distribution Division's (CNFDD) *Commodity Administrative Manual*.

Our examination was made for the purpose of forming an opinion on the Statement of FDP Inventory of the Foundation taken as a whole. The accompanying Schedule of Federal Commodities Contributions and Expenditures (page A2.2-5) and supplementary information on page A2.2-6 is presented for purposes of additional analysis and is not a required part of the Statement of FDP Inventory. The information in these schedules has been subjected to the examination procedures applied in the examination of the Statement of FDP Inventory and, in our opinion, is fairly stated in all material respects, in relation to the Statement of FDP Inventory taken as a whole.

Bean, Bean & Counter  
Certified Public Accountants

September XX, 19X9

XYZ Foundation, Inc.  
**SCHEDULE OF FEDERAL COMMODITIES CONTRIBUTIONS AND EXPENDITURES**  
For the Year Ended June 30, 19X9

<b><u>Federal Grantor/ Pass Through Grantor/ Program Title:</u></b>	<b><u>CFDA Number:</u></b>	<b><u>Pass- Through Grantor's Number:</u></b>	<b><u>Program or Award Amount :</u></b> \$	<b><u>Revenue Recognized:</u></b> \$	<b><u>Disbursements /Expenditures:</u></b> \$	<b><u>Ending Inventory:</u></b> \$
U. S. Department of Agriculture:						
Pass-through California Department of Education's Nutrition Services Division						
Food Distribution (1)	10.558	Axxx-xx	<u>54 424</u>	<u>54,424</u>	<u>39,172</u>	<u>15,252</u>
<b>Total Commodities Contributions</b>			<u>\$ 54,424</u>	<u>\$ 54,424</u>	<u>\$ 39,172</u>	<u>\$ 15,252</u>

(1) - USDA Donated Food Commodities, CFDA number 10.550, is included in CACFP's nutrition cluster, CFDA number 10.558 of OMB Circular A-133 *Compliance Supplement*.

XYZ Foundation, Inc.  
**NOTES TO SCHEDULES**  
Year Ended June 30, 19X9

NOTE 1: GENERAL INFORMATION

XYZ Foundation, Inc. (the Sponsor) was incorporated as a charitable nonprofit corporation in 1967 to provide residential, educational, rehabilitational, and nutritional services to adult offenders, ex-offenders, and substance abusers, develops affordable housing, promotes economic development and provide vocational training for people in need. provide educational programs for the care of children outside their homes. It has been granted tax exempt status by the Internal Revenue Service under Section 501(c)(3) and California Franchise Tax Board under Section 23701 (d). The Sponsor is both publicly and privately funded having an agreement with the California Department of Education (CDE) Nutrition Services Division's Food Distribution Program (FDP), and County Rehabilitation Program. The Sponsor is not a recipient of Child Care and Adult Care Food Program (CACFP) funding. Also, the Sponsor receives funds from private donations. This report includes an opinion only on the activity of the Food Distribution Program (FDP). The source of funding for the FDP is the United States Department of Agriculture (USDA) and CDE.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

**BASIS OF ACCOUNTING** - The supplementary Schedule of Federal Commodities Contributions is prepared on the accrual basis of accounting. Revenues shown involve no cash awards to the Sponsor. All awards received were donated food from the USDA. Revenues are recognized as the donations are received by the Sponsor, and are recorded at the values provided by USDA. Expenditures are recognized when donated food is consumed. Unused donations are recorded as inventory, valued on a first-in, first-out basis.

NOTE 3: COMMODITY VALUATION

In accordance with the USDA, the fair market value of donated food commodities based on the assessed value of commodities from the sponsor's receipt of delivery bills of lading from the warehouse shipper.



## Accountant's Letterhead

### **Report on Compliance and on Internal Control Over Financial Reporting Based on an Examination of the Statement of FDP Inventory Performed in Accordance With Government Auditing and Attestation Standards**

Board of Directors  
XYZ Foundation, Inc.

We have examined **XYZ Foundation, Inc.'s** (Foundation) Food Distribution Program (FDP) (Sponsor Agreement No. Axxx-xx ) Statement of FDP Inventory for the period from July 1, 19X8 through June 30, 19X9 and have issued our report thereon dated September XX, 19X9. We conducted our examination in accordance with the *Statement of Standards of Attestation Engagements* established by the American Institute of Certified Public Accountants and with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and included tests of the program and accounting records prescribed by the Office of the Inspector General of the United States Department of Agriculture (OIG-USDA), as set forth in its *Audit Guide for Audits of Child and Adult Care Food Program Institutions*, No. 27029-2, dated February 18, 1999 and the California Department of Education's (CDE) Nutrition Services Division's (NSD) *Commodity Administrative Manual*.

#### Compliance

As part of obtaining reasonable assurance about whether the Foundation's Statement of FDP Inventory (financial statement) is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our examination and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items, X9-1, X9-2, X9-4 and X9-5.

#### Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Foundation's internal control over financial reporting in order to determine our examination procedures for the purpose of expressing our opinion on the Financial Statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operations that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Foundation's ability to record, process, summarize and report financial data consistent with the assertions of management in the Financial Statement. A reportable condition is described in the accompanying schedule of findings and questioned costs as item, X9-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the Financial Statement being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe the reportable conditions, X9-3 and X9-4 described above, are material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management of the Foundation in a separate letter dated September XX, 19X9.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Bean, Bean & Counter  
Certified Public Accountants

September XX, 19X9

Accountant's Letterhead

**Independent Accountant's Report on Compliance With Requirements Applicable to the  
Federal Program and on Internal Control Over Compliance and Financial Reporting in Accordance  
With the Program-Specific Audit Option Under OMB Circular A-133 and Attestation Standards  
Made as a Part of a Program-Specific Examination of the Statement of FDP Inventory**

Board of Directors  
XYZ Foundation, Inc.

We have examined management's assertion included in the accompanying Statement of FDP Inventory (Financial Statement) under the Food Distribution Program (FDP) (Sponsor Agreement No. Axxx-xx ) that **XYZ Foundation, Inc.'s** (Foundation) internal control over financial reporting as of June 30, 19X9 is adequate to meet the criteria established by the Office of the Inspector General of the United States Department of Agriculture (OIG-USDA), as set forth in its *Audit Guide for Audits of Child and Adult Care Food Program Institutions*, No. 27029-2, dated February 18, 1999, and California Department of Education's (CDE) Nutrition Services Division's (NSD) *Commodity Administrative Manual*. Management is responsible for maintaining internal control over financial reporting. Our responsibility is to express an opinion on whether the internal control is adequate to meet such criteria based on our examination.

We conducted our examination in accordance with the *Statement of Standards of Attestation Engagements* established by the American Institute of Certified Public Accountants and with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and included tests of the program and accounting records prescribed by the OIG-USDA's *Audit Guide for Audits of Child and Adult Care Food Program Institutions*, No. 27029-2 and CDE NSD's *Commodity Administrative Manual* for examinations of this program. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Statement of FDP Inventory complied with laws and regulations, noncompliance with which would be material to the FDP.

In planning and performing our examination for the year ended June 30, 19X9, we considered the Foundation's FDP internal control system in order to determine our examination procedures for the purpose of expressing our opinion on the FDP internal control system. This report addresses our consideration of the FDP internal control policies and procedures relevant to compliance with requirements applicable to the FDP.

The objectives of the internal control system used in administering the FDP are to provide management with reasonable, but not absolute, assurance that, with respect to the FDP, resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and fairly disclosed in reports. Because of inherent limitations in any system of internal accounting and administrative controls used in administering the FDP, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

For the purpose of this report, we have classified the significant internal accounting controls for the FDP in the following categories:

Accounting Applications

Administrative Budgets	Payroll and Personnel
Revenue and Receipts	Purchases and Disbursements

We have also classified the significant internal administrative controls as they relate to the following compliance requirements:

Activities Allowed or Unallowed	Reporting
Eligibility	Subrecipient Monitoring
Period of Availability of Federal Funds	Special Tests and Provisions

For all of the FDP internal control system categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed the control risk.

We understand that the Foundation considers the controls over financial reporting that meet the criteria referred to in the first paragraph of this report adequate for its purpose. In our opinion, based on this understanding and our examination, management's assertion that, except for the effect of the material weakness described in this report, Foundation maintained effective internal control over financial reporting, as of June 30, 19X9, is fairly stated, in all material respects, based upon the criteria established by the OIG and NSD.

As discussed in management's assertion, material weaknesses exist in the design or operation of the internal control of Foundation in effect at June 30, 19X9. All material weaknesses that we found are identified, as items X9-3 and X9-4, in the accompanying Schedule of Findings, Questioned Costs, and Recommendations. A material weakness is a condition that precludes the entity's internal control from providing reasonable assurance that material misstatements in the Financial Statement will be prevented or detected on a timely basis.

We have also identified immaterial instances of noncompliance and internal control weaknesses that we have reported to the management of Foundation in a separate letter dated September XX, 19X9.

These conditions were considered in determining the nature, timing, and extent of examination tests applied in our examination of the 19X9 Statement of FDP Inventory, and this report does not affect our report dated, September XX, 19X9 on these claims for reimbursement.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Bean, Bean & Counter  
Certified Public Accountants

September XX, 19X9

XYZ Foundation, Inc.  
**Schedule of Findings, Questioned Costs and Recommendations**

Year Ended June 30, 19X9

**A. Summary of Accountant's Results**

**I. Examination of Statement of FDP Inventory**

1. The Independent Accountant's Report on the Statement of FDP Inventory(Financial Statement) of XYZ Foundation, Inc.(Sponsor) expressed an unqualified opinion.
2. Internal Control over Financial Reporting:
  - a. Reportable conditions were disclosed in the examination of the Statement of FDP Inventory.
  - b. Reportable condition, X9-3 in 2a above, is considered to be a material weakness.
  - c. Non-compliance was disclosed but was not material to the Financial Statement.

**II. Examination of Federal Award**

The USDA Donated Food Commodities Program, CFDA number, 10.550, is passed-through CDE's Nutrition Services Division and is included in the Child and Adult Care Food Program's(CACFP) CFDA number 10.558, nutrition cluster of OMB Circular A-133 *Compliance Supplement*.

1. Internal Controls Over Federal Programs:
  - a. Two reportable conditions were disclosed in the examination of the federal award.
  - b. One of the reportable conditions, in 1a above, is reported as a material weakness.
2. XYZ Foundation, Inc. qualified as a low-risk auditee under OMB Circular A- 133, Section 530.

XYZ Foundation, Inc.  
**Schedule of Findings, Questioned Costs and Recommendations**

Year Ended June 30, 19X9

**B. Findings and Questioned Costs:**

I. <u>Examination of Statement of FDP Inventory</u>	<u>Questioned Cost</u>
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**Reportable Conditions**

<b>Finding X9-1</b> Excessive and Old Six-Month Inventory Supply	\$ 2,158
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Condition: Our test of the Sponsor's Annual Inventory Report to the perpetual inventory records and random inspections of the commodity storage facilities indicated donated food items with storage periods in excess of the six-month retention period. We do not believe that this reportable condition is a material weakness.

Criteria: USDA regulation, 7CFR Part 250-14(f), prohibits agencies from storing more than a six-month supply of any donated food item.

Cause: Lack of proper rotation and transfer of donated food items by management.

Effect: A total of \$2,158 in commodity losses was reported to the FDP as a result of the above unusable food items. It was determined, as a result of the review of the commodity loss claims by the FDP commodity consultant, that the Sponsor was responsible for these losses and that it must either pay the current USDA fair market value to the Food Distribution Service (FDS) for the donated food, or replace the food.

Recommendation: Implement procedures to monitor commodity storage facilities for six-month retention cycle.

Response: Half-way house Manager has not yet implemented these procedures due to problems in perpetual inventory record-keeping.

<b>Finding X9-2</b> Unallowable Use	\$ 450
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Condition: Our test of the perpetual inventory records indicated an instance of commodity usage not for meals served to eligible individuals. These commodities were used for fund-raising activities ran by the inmates. We do not believe that this reportable condition is a material weakness.

Criteria: USDA regulation, 7CFR Part 250.15(a)(3) and Part 250.15 (f)(2).

Cause: Lack of proper management oversight.

Effect: Perpetual inventory records indicated \$ 450 of usage for the fund-raising event.

Recommendation: Implement procedures to restrict inventory usage to meal production.

Response: Management has agreed to implement these procedures.

XYZ Foundation, Inc.  
**Schedule of Findings, Questioned Costs and Recommendations**

Year Ended June 30, 19X9

**B. Findings and Questioned Costs** (continued):

I. <u>Examination of Statement of FDP Inventory</u>	Questioned Cost :
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Finding X9-3 Overstatement of Physical Inventory	\$ 4,696
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Condition: Our inventory testing indicated that the Foundation's June 30, 19X9 physical inventory overstated all food received through USDA FDP and on-hand at that time. We believe that this reportable condition is a material weakness.

Criteria: USDA regulation, 7CFR Part 250.14(d)(3) and Part 250.14 (d)(8).

Cause: The overstatement was due in part to the incorrect inclusion of 19X8 revenues with 19X9 revenues, and in part to a counting error of inventory on hand at June 30, 19X9.

Effect: The overstatement was \$ 4,696.

Recommendation: The Foundation should track each fiscal year's receipts and usage separately. In addition, the Foundation should use two teams to perform separate, independent counts of USDA donated food inventory on hand. Reconciliations of those counts should then be performed in order to reduce the probability of such errors.

Response: The \$4,696 error was subsequently identified and corrected by management.

II. Examination of Federal Award Program

**Reportable Conditions**

Finding X9-4 Eligibility	\$ 9,606
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Condition: During our review of the eligibility records of the total inmate population, we found that the institution's feeding program was not large enough to permit participation by a majority of the total inmate population for a minimum of ten (10) hours per week, per participating inmate. In addition, we found that there was no documentation in the institution's records supporting the required written statement from either the administrator or responsible official certifying that a majority of the total inmate population is eligible to participate at least ten (10) hours per week in rehabilitative programs. We believe this reportable condition is a material weakness.

Criteria: USDA regulation, 7CFR Part 250.41, Part 250.13(e) and Part 250.15(c), state the eligibility, quantities and use requirements for USDA-donated foods.

Cause: Lack of certifying documentation on the total inmate population and incorrect determination of the average number of meals served daily to needy persons by management.

XYZ Foundation, Inc.  
**Schedule of Findings, Questioned Costs and Recommendations**

Year Ended June 30, 19X9

**B. Findings and Questioned Costs (continued):**

Questioned  
Cost :

II. Examination of Federal Award Program

**Reportable Conditions**

**Finding X9-4** Eligibility (continued)

Effect: The total inmate population was not eligible to receive USDA-donated food. As a result, the number of needy persons being served was overstated based on FDP's formula. It was estimated that about 25 percent of the total inmate population was ineligible resulting in \$ 9,606 of liability. The Foundation at the option of FDP shall either replace the donated food in its distribution program in kind, or pay to FDP the value of the donated food as determined by the FDP.

Recommendation: Periodic reviews should be made of the Foundation's records to ensure that eligibility, attendance and certifications of the total inmate population are properly documented and maintained by management.

Response: Management has implemented periodic review procedures for all key staff, and FDP has requested the Foundation to replace \$ 9,606 of fair market value of donated food in its distribution program.

**Finding X9-5** Untimely Return of Bills of Lading/Unreported Discrepancies

- None -

Condition: Our review of the receiving records indicated several instances where the signed copy 3 of the bill of lading was not returned to the FDP distribution center within 60 days following the invoice date. There were several instances where damaged commodities and short shipments of commodities were neither notated on the carrier's receipt form nor on Copy 3 of the FDS bill of lading. We do not believe that this reportable condition is a material weakness.

Criteria: USDA regulation, 7CFR Part 250.13, and Chapter IV, Delivery and Receipt of Commodities of CDE's NSD's *Commodity Administrative Manual*, states that the sponsor or agency must confirm the receipt of the USDA-donated commodities by signing and returning the agency copy (Copy 3) of the bill of lading to the FDP distribution center within 60 days of the invoice date. The agency is held responsible for the value of any lost or damaged USDA-donated commodities.

Cause: Inadequate receiving procedures.

Effect: The possible suspension of the agency from further participation in the FDP.

Recommendation: Implement improved receiving procedures to ensure that all FDP invoices and carrier's receipt form are matched to Copy 3 of the FDP bill of lading and returned to the FDP distribution center within 60 days of the invoice date.

Response: Half-way house Manager has implemented improved receiving procedures for all key staff.



XYZ Foundation, Inc.  
**Schedule of Findings, Questioned Costs and Recommendations**

Year Ended June 30, 19X9

**C. Status of Prior Year Findings:**

Questioned  
Cost

I. Examination of Statement of FDP Inventory

**Reportable Conditions**

**19X8 - Finding 1:** Improper Storage Procedures/Disallowed Commodity Loss Claim \$ 3,008

Condition: Our inspection of the agency's commodity storage facilities indicated improper storage procedures, as follows:

1. Spoilage
2. USDA-donated foods are not readily identifiable.
3. Foods are stored on the floor and against the walls without proper ventilation.
4. Opened sacks of dry commodities.
5. Lack of current health inspection certificate.

We believe that this reportable condition is a material weakness. There was an adjustment of this amount to the Statement of FDP Inventory.

Criteria: USDA regulation, 7CFR Part 250.13(e)(1) and Part 250.14(a) ,

Cause: Lack of proper storage standards and procedures.

Effect: A total of \$ 3,008 in commodity losses was reported to the FDP as a result of the above unusable food items. It was determined, as a result of the review of the commodity loss claims by the FDP commodity consultant, that the agency was responsible for these losses and that it must pay the current USDA fair market value to the FDS for the donated food or replace the food.

Recommendation: Implement procedures to monitor commodity storage facilities for six-month retention cycle procedures.

Response: The recommendation was implemented by management in November 1998. No similar findings were noted in the 19X9 examination.

II. Examination of Federal Award Program

**Reportable Conditions**

**19X8 – None**

XYZ Foundation, Inc.  
**Management Letter**

Year Ended June 30, 19X9

Board of Directors  
XYZ Foundation, Inc.

In planning and performing our examination of **XYZ Foundation, Inc.'s** (Foundation) Food Distribution Program (FDP) (Sponsor Agreement No. Axxx-xx) Statement of FDP Inventory as of June 30, 19X9 and the changes in its inventory for the period from July 1, 19X8 to June 30, 19X9, we considered its internal controls and affect on compliance in order to determine our examination procedures for the purpose of expressing our opinion on the Statement of FDP Inventory and to provide assurance on its accounting and management controls. However, we noted certain matters involving the internal controls of the Foundation and its operation that we considered to be reportable conditions under standards established by the American Institute of Certified Public Accountants, and nonmaterial instances of noncompliance under criteria prescribed by the Office of the Inspector General of the United States Department of Agriculture (OIG-USDA), as set forth in its *Audit Guide for Audits of Child and Adult Care Food Program Institutions*, No. 27029-2, dated February 18, 1999, and California Department of Education's (CDE) Nutrition Services Division's(NSD) *Commodity Administrative Manual* for examinations of the FDP. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design and operation of the internal accounting and management controls, that in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the Statement of FDP Inventory.

The nonmaterial instances of noncompliance and internal control weaknesses are described as follows:

1. ....

2. ....

The information contained in this report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Bean, Bean & Counter  
Certified Public Accountants

September XX, 19X9

